# Idaho’s Forest Products Industry Current Conditions, 2007 Forecast and Future Expectations

Presented by the Intermountain Forest Association
To the Joint Legislative Economic Outlook and Revenue Assessment Committee

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# Idaho's Vibrant Forest Products Business Sector Today

- Intermountain Forest Association represents forest land owners and mill operators;
- We are HIGH on the Forest Products Business Sector in Idaho because we are:
  - High Tech
  - High Value
  - Highly Competitive
  - Highly Committed

# High Tech

- Using the best of modern technology we make more with less;
- We use high tech equipment and technology in the mills and the woods;
  - From Tree Inventory to Computer driven Optimizers in the Mill we do business in the 21st Century

# Control Panel – Typical Sawmill

# High Value Products

- Idaho's primary wood and paper products generate nearly $2 billion in 2005 and 2006;
- 2006 State timber harvest generated over $55 Million for kids and schools.
- Each $1 dollar in sales brings in another $1 dollar in other sectors of Idaho's economy.
- Each labor dollar generated created $1.44 of additional income in other sectors in Idaho.

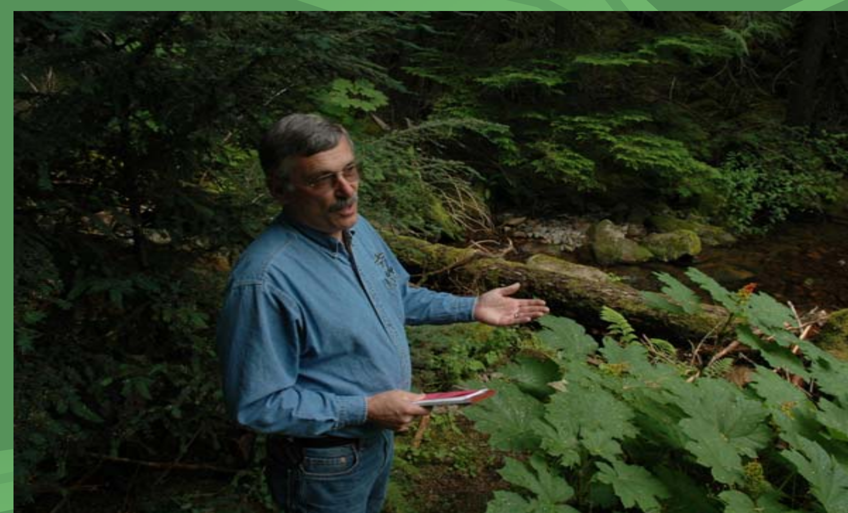
# Highly Competitive

- Trees Grow in Many Places.
- We compete locally, regionally, nationally and globally.
- Idaho's Forest Lands are among the most productive.

# Highly Competitive Wages

- About 15,100 forest employees in Idaho.
- Annual wages average $32,000 plus; about $10,000 above the state average.
- Every 100 forest jobs supports an additional 209 jobs in other sectors.

# We are Highly Committed



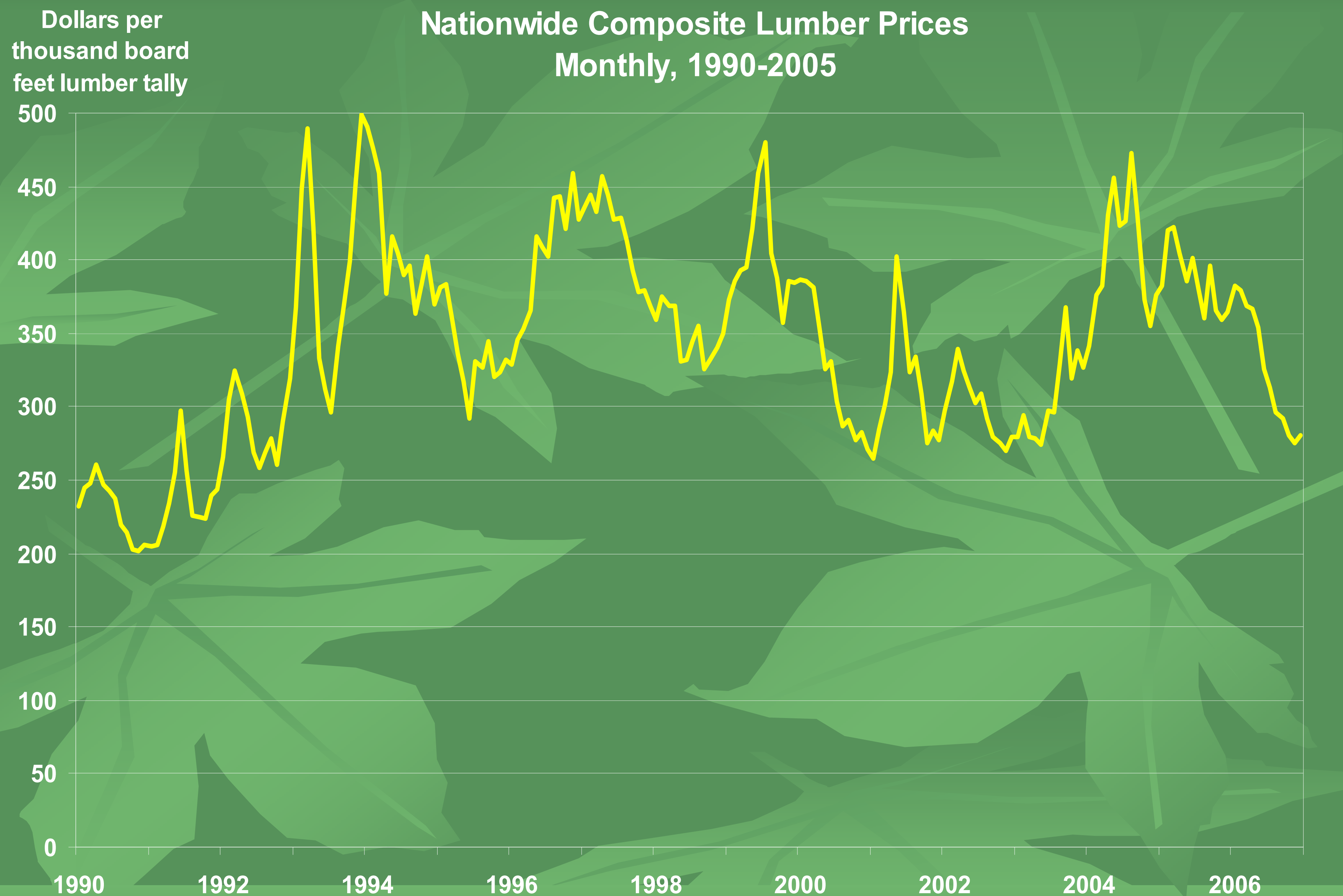
# Commitment Runs Deep

- High Quality Products
- Environmentally Sustainable Practices
- Best Management Practices
- Reforestation Requirements
- Value Wildlife and Habitat
- Protection for Water, Air and Land

# Idaho’s Forest Products Industry
# Current Conditions and 2007 Forecast

- **Operating Conditions**
- In response to dramatically lower U.S. housing starts, prices for most wood products were down sharply in 2006 relative to 2005.
- After starting the year at moderate levels, lumber prices declined by over 20 percent as 2006 progressed (Figure 1).
- Housing starts fell because:
  - build up in inventories of unsold homes
  - brought on by higher mortgage rates and
  - very high speculative housing construction in previous years

## Figure 1
## Nationwide Composite Lumber Prices
## Monthly, 1990-2005



# Material Constraints

- The availability of raw material continued to constrain the Idaho forest products industry in 2006.
- Timber harvest declines were seen in virtually all the timber ownership classes (Figure 2), which was likely due in part to lower stumpage prices and very limited volumes of federal timber on the market.

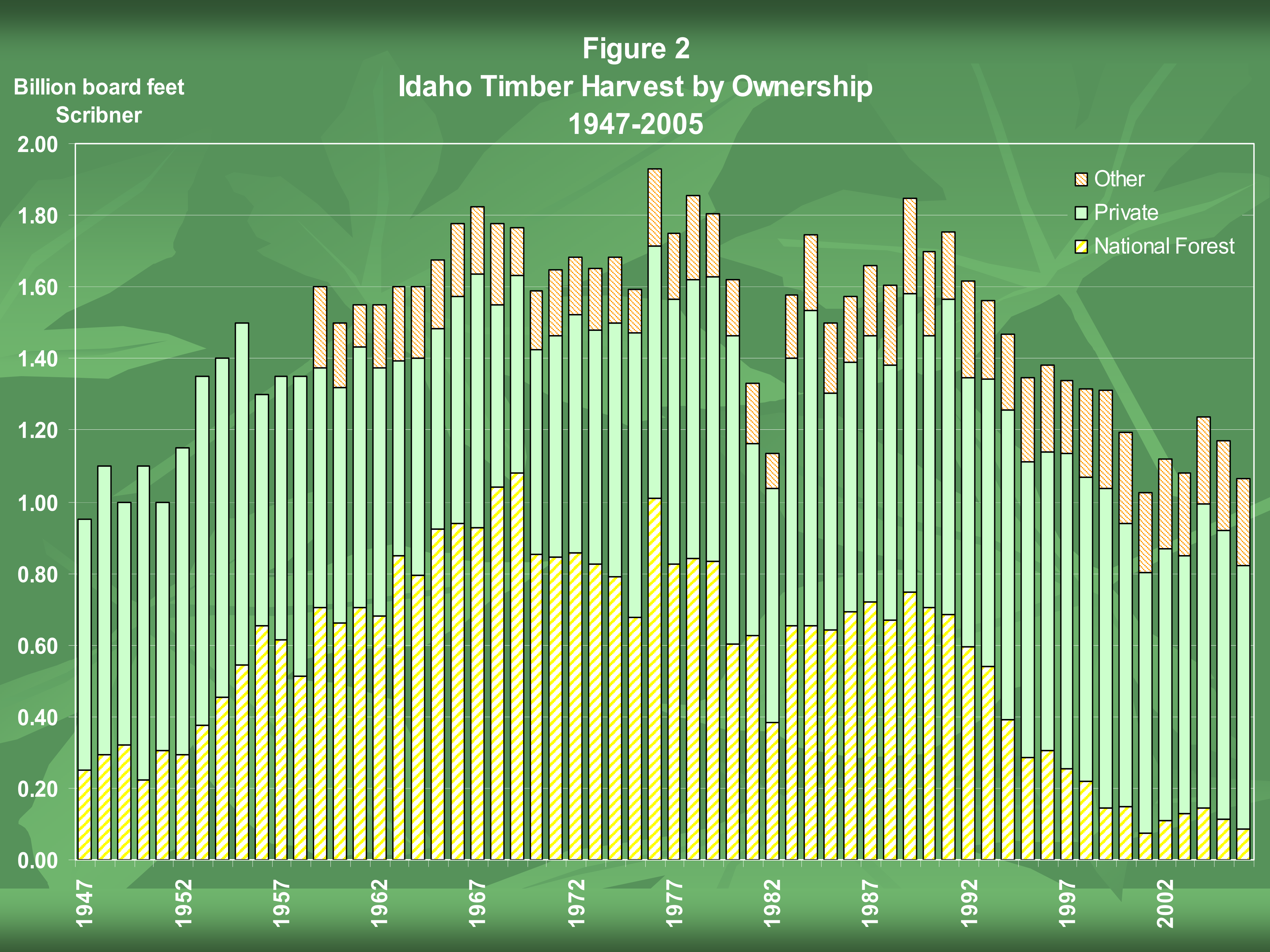


Figure 2
Idaho Timber Harvest by Ownership
1947-2005
Billion board feet
Scribner
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
Other
Private
National Forest
1947
1952
1957
1962
1967
1972
1977
1982
1987
1992
1997
2002

# Idaho Industry Sales, Employment, and Production for 2006

- The estimated sales value of Idaho's primary wood and paper products manufacturers for 2006 was just under $1.8 billion (Figure 3).
- Estimated wood and paper products industry employment in 2006 was an estimated 15,400 workers (Figure 4).
- Employment in the primary timber harvesting and processing sectors was down by approximately 300 workers with secondary wood processing up by several hundred workers.

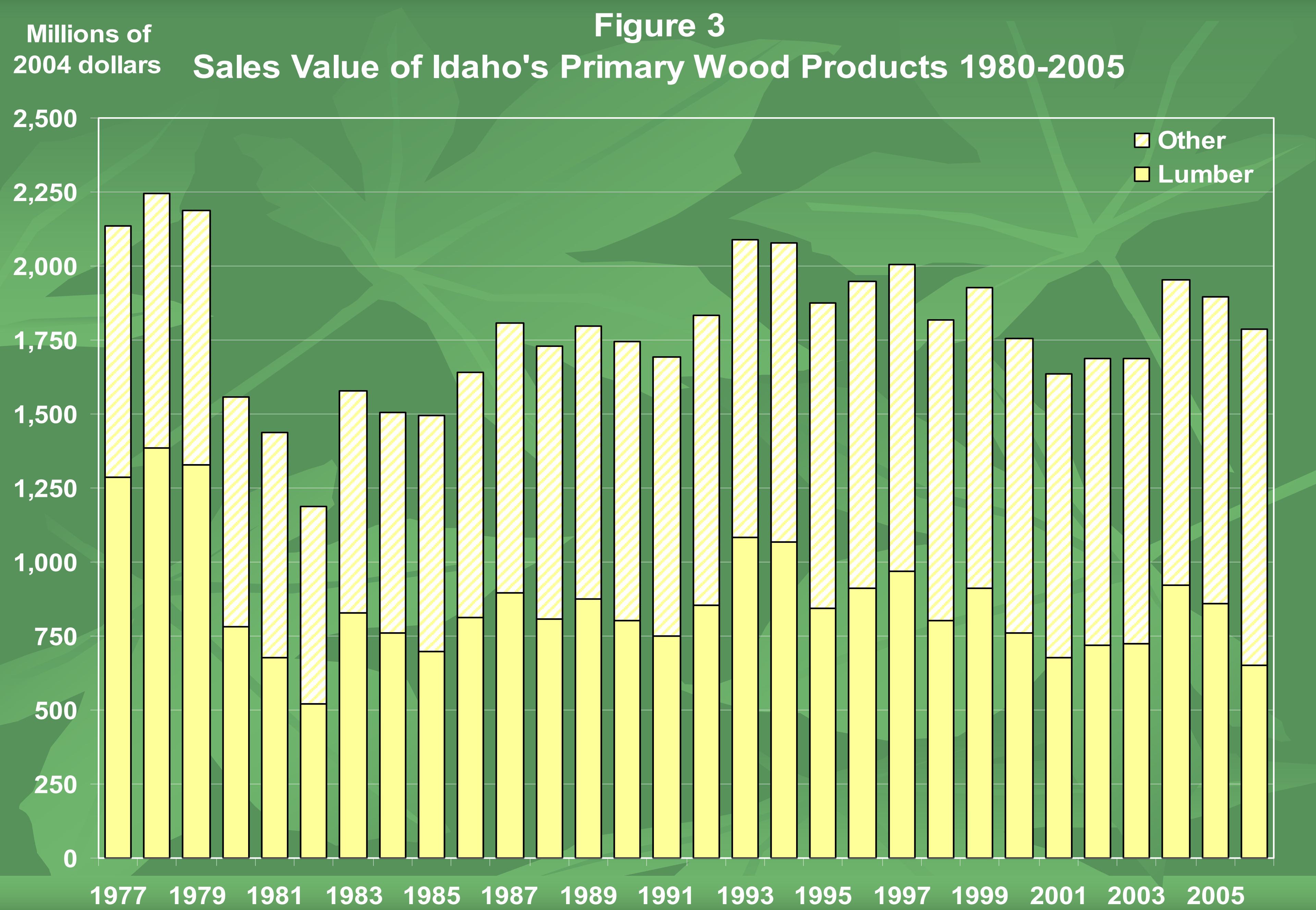


Figure 3
Sales Value of Idaho's Primary Wood Products 1980-2005
Millions of 2004 dollars
2,500
2,250
2,000
1,750
1,500
1,250
1,000
750
500
250
0
Other
Lumber
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005

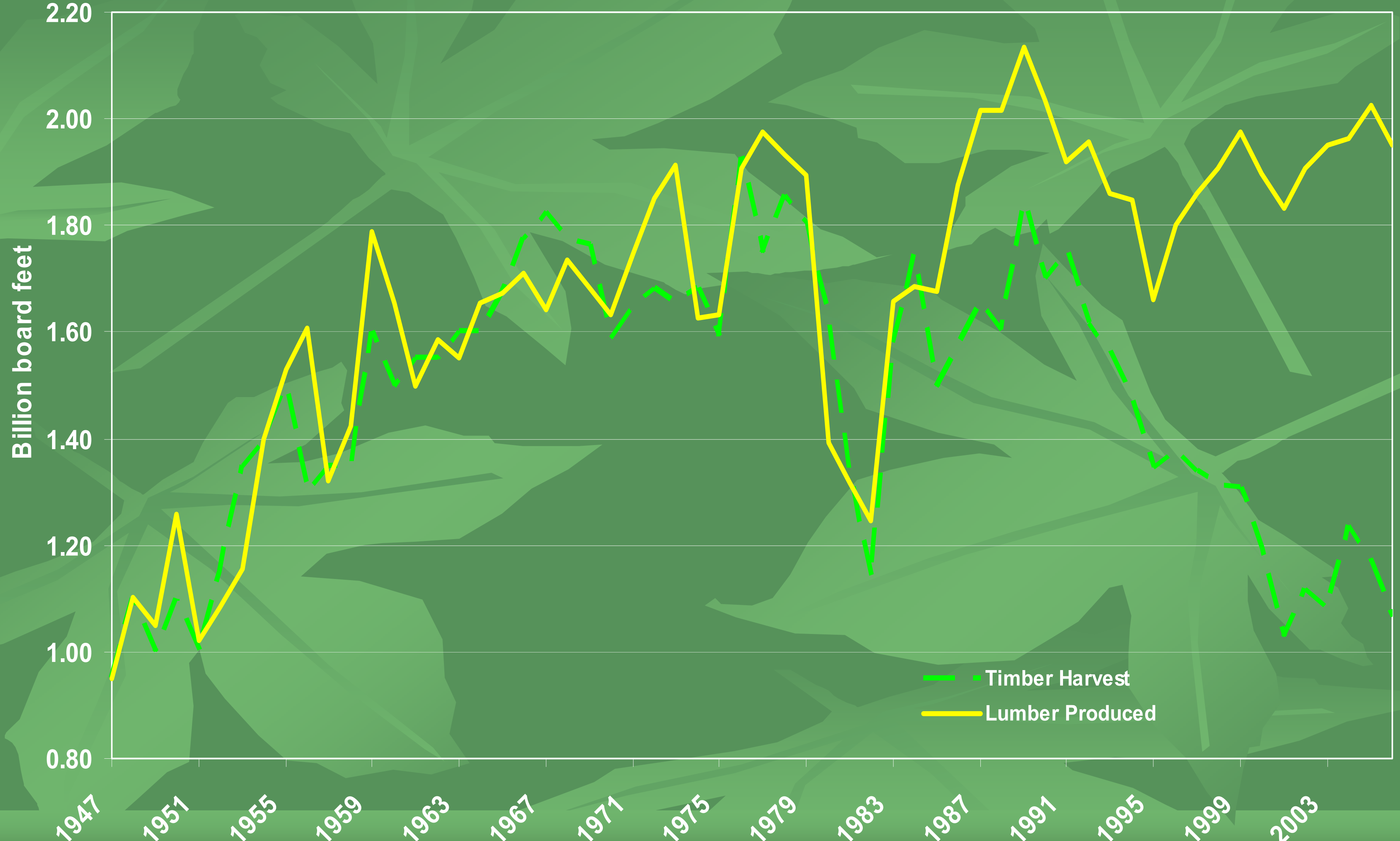
## Figure 4
## Employment in Idaho's Forest Products Industry
## 1969-2005


Note: The change from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS) has made it problematic to provide consistent and continuous time series data for employment and labor income. Numbers for years prior to 2001 are based on the old SIC system, while the more recent figures are based on NAICS.

# Production for 2006

- Estimated timber harvest for 2006 was just under 1.06 billion board feet,
  - a decrease of 9 percent from the 2005 timber harvest of 1.16 billion bf (Figure 4).
- Lumber production in Idaho for 2006 is estimated at 1.95 billion board feet,
  - down slightly from 2.0 billion board feet in 2005 (Figure 5).

# Figure 5
# Idaho Timber Harvest and Lumber Production
# 1947-2005



# Outlook for 2007

- Business conditions in the forest products sector in 2007 are expected to hold steady.
  - due to continued weakness in the U.S. residential construction sector
  - expected to persist at least through the first half of 2007.
- Prices for lumber and other wood products in 2007 will likely remain low early in the year.
- The new softwood lumber agreement with Canada in effect as of October 2006 should provide some price stability for lumber in low markets, reducing price volatility.

# Optimistic About the Future

- Overall, 71% of surveyed businesses were optimistic that markets would be the same or better in 2007.
- 39 percent expect increased production
- 50 percent expect greater sales in 2007.
- About 50% expect to see an increase in profits from in 2007.
- 40 percent expect a price increase on their products.

# Major Issues

- Timber supply remains uncertain going into 2007.
- General market conditions was listed by over 50% of mill operators as a major issue that will affect their operation in 2007.
- Other major concerns
  - increases in health insurance
  - transportation costs,
  - energy costs,
  - qualified personnel.

# What Can the State Do to Help?

- Improve Idaho’s Road and Bridge Infrastructure in North Idaho.
- Help re-create short line railroads.
- Increase IDL’s ability to sustainably harvest Endowment Timber.
- Maintain a Workable FPA.
- Assist in Workforce Development.
- Maintain stable forest land taxes, remove personal property tax on business tools.
- Provide reasonable regulatory permitting costs and create efficient permitting and regulatory processes.
- Find ways to reduce energy costs.